

TEACHERS' RETIREMENT BOARD MEETING NOVEMBER 12, 2004

CALL TO ORDER:

Chairman Tim Ryan called the meeting to order at 8:30 a.m., in the Board of Investments Conference Room, 2401 Colonial Drive, Helena, Montana.

BOARD MEMBERS PRESENT:

Tim Ryan, Chairman
Mona Bilden
Scott Dubbs
Barbara Foster
Kari Peiffer
James Turcotte

STAFF PRESENT:

David L. Senn, Executive Director
Tammy Rau, Deputy Executive Director
Vivian Hammill, Legal Counsel
Natalie Chamberlain, Executive Secretary
Dan Gaughan, Accounting/Fiscal Manager
Helen Gonsowski, Benefits Officer

OTHERS PRESENT:

David Slishinsky, Mellon
Mark C. Olleman, Actuary, F.S.A., M.A.A.A., Milliman
Tom Bilodeau, MEA-MFT
Kristi Rosseland, Senior Budget Analyst, Office of Budget & Program Planning
Charlotte Thomas, Legislative Chair, Montana Retired Educators' Association (MREA)
Joanne Wright, Disability Applicant
Pearl Allen, Financial-Compliance Audit
Glen Leavitt, Montana University System
Bob Vogel, Montana School Board Association
Kathy Bramer, Office of Public Instruction
Don Bidwell, S C Administration
Bob Bungni, Interim CIO, Board of Investments
Julie Sykes, School Administrators of Montana (SAM)

ADOPT AGENDA –NOVEMBER 12, 2004:

Chairman Tim Ryan called for additions or changes to the Agenda for November 12, 2004. Seeing none, Chairman Ryan requested a motion to adopt the Agenda. Mr. James Turcotte moved that the agenda be approved. Seconded by Mr. Scott Dubbs, the motion carried unanimously.

ADOPT SEPTEMBER 9 AND 10 MINUTES:

Chairman Ryan called for a motion to approve the minutes from the September 9 and 10, 2004 Board meeting. Mrs. Kari Peiffer moved that the September 9 and 10, 2004 minutes be adopted. Seconded by Mr. Dubbs, the motion carried unanimously.

ACTUARIAL REVIEW/AUDIT

Mr. David Senn introduced Mr. David Slishinsky of Mellon Human Resources. Mr. Slishinsky was hired jointly by the Legislative Auditor's Office, Teachers' Retirement Board and the Public Employees Retirement Board to complete a full reproduction audit of the July 1, 2004 actuarial valuation results, and review the recent experience studies, actuarial assumptions and methods used in the valuation prepared by the TRS actuary, Milliman. Mr. Slishinsky stated that the purpose of his report was to confirm that Milliman's calculations are right, that the funded status of the system is correctly disclosed in the actuarial report and that the annual contributions required to fund the system are calculated correctly.

Mellon concurred with the results of the July 1, 2004 actuarial valuation stating, that their full scope review of the TRS found that the actuarial valuation fairly represents the actuarial position and funding requirements of the retirement system. Mellon's report included recommendations to improve the readability of the valuation report, and that the actuarial valuation be prepared annually.

ACTUARIAL VALUATION

Mr. Senn introduced Mark C. Olleman, Actuary, F.S.A., M.A.A.A., Milliman, consulting actuary. Mr. Olleman commented that he was pleased with the results and findings of the 2004 Actuarial Valuation audit. Mr. Olleman presented the July 1, 2004 Actuarial Valuation stating that the valuation results indicate that an actuarial loss occurred during the preceding two fiscal years. The loss is primarily due to lower returns on the assets than expected by the actuarial assumptions, and is reflected in the 1.6% and 2.1% net investment return on an actuarial basis for the past two years. As a result, current contributions are not sufficient to amortize the Unfunded Actuarial Accrued Liability over 30 years or less; therefore, the system is not actuarially sound. Milliman recommended an increase in the employer contribution rate of 2.87% (7.58% to 10.45%) as of July 1, 2005 to maintain an amortization of the unfunded actuarial accrued liability over the 30 years, beginning July 1, 2004. Mr. Olleman explained that the contribution increase could be phased in over a number of years, or lessened by lowering the value of benefits provided for future members.

MOTION/VOTE: Mr. Turcotte moved the Board accept the Actuarial Valuation. Second by Mr. Dubbs, the motion carried unanimously.

UPDATED ACTUARIAL FACTORS

Mr. Olleman reviewed for the Board the recommended changes to the actuarial factors and service purchase formula resulting from the new investment rate assumptions approved by the Board.

Termination Pay - Termination pay Option 1 requires that the member and their employer pay contributions to the retirement system as determined by the Board to adequately compensate the system for the additional retirement benefits received. Mr. Senn recommended that current members be given ample notice that the contributions required under termination pay option 1 will increase, and postpone the effective date of the new factors to retirement benefits effective after July 1, 2005.

Actuarial Cost to Purchase Service – Several provisions found in the TRS laws governing the purchase of service require that the actuarial cost of the service purchased be based on the most recent actuarial valuation of the system. Mr. Senn recommended that the updated actuarial service purchase formula be made effective December 1, 2004.

Optional Retirement Factors – Retiring members may elect an optional retirement allowance that guarantees, upon their death, benefits will continue to their designated beneficiary. Mr. Senn recommended that current members be given ample notice that the updated factors may result in a slightly lower optional retirement allowance, and postpone the effective date of the new factors to retirement benefits effective after July 1, 2005.

MOTION/VOTE: Mr. Turcotte moved the Board adopt the updated actuarial factors as recommended by staff. Second by Mr. Dubbs, the motion carried unanimously.

PROPOSED LEGISLATION - 2005 SESSION

Actuarial Funding Proposal - Mr. Senn presented the actuarial funding proposal and asked Mr. Olleman to discuss the actuarial effect of the three proposed plan design changes: (1) Increase the earliest age at which a member can receive an early retirement benefit from age 50 with 5 years of service, to age 55 with 5 years of service. (2) Pay full benefits after 30 years of service and age 55, instead of 25 years of service at any age. (3) Changing the annual average final compensation from 3 highest consecutive years' to 5 highest consecutive years.

Mr. Olleman stated he could not understate the importance of plan design changes and the possible impact, both positive and negative, these changes will have on future members. These types of changes can only be made years and years ahead of time anticipating or guessing what world changes and life expectancy ages will be in 30 to 40 years. Any proposed changes should take into consideration financial needs of the employees, employers and the State.

Chairman Ryan commented that TRS does not have the same financial vehicles as some private sectors, so the Board always needs to be conscience of the impact any changes will have on funding as well as members, but cannot make decisions in a vacuum either. Chairman

Ryan did not want to create a package that was not beneficial and competitive for the Montana TRS members.

Mr. Dubbs suggested the Board look at other planning options. Mr. Dubbs is not in favor of cutting future member benefits. He would be in favor of asking the Legislature for the 2.87% increase in contributions, and would like to continue working with current active members to come up with a plan that they would like to have in place in 30 years.

Mr. Turcotte commented that he agreed with Mr. Dubbs. Mr. Turcotte was concerned that changing future benefits for new hires could affect Montana's recruitment of new teachers.

Chairman Ryan commented that the reality of retirement plans was that people are living longer and systems are going to have to change their retirement ages to ensure sound monetary retirements for older retirees.

Mrs. Peiffer commented that early retirement, as a new teacher, was not a high priority. Her beginning salary was more of a concern. Now that Mrs. Peiffer has 10 years in as a teacher, she feels that we should look into new retirement solutions for TRS members.

Mr. Senn acknowledged to the Board that this was an action item and asked if the Budget Office would like to address the Board.

Ms. Kristi Rosseland, Senior Budget Analyst, Office of Budget & Program Planning commented that she thought it was too late to pull out the legislative proposals that had been submitted and already put into the governor's budget. Ms. Rosseland encouraged the Board to support the legislation and at a later date make the minor modifications.

Mr. Bilodeau stated MEA-MFT would agree to a 30-year retirement system based on a 2.0% formula for new hires. MEA-MFT would oppose all other proposals. Any attempts to move the TRS system to a 5 year averaging system or imposing a 30 year system without the 2.0% formula adjustment is unacceptable.

MOTION/VOTE: Mr. Dubbs motioned the Board support the 2.87% contribution rate increase, phased in over time, without changing benefits for new members. Mrs. Peiffer seconded the motion.

Chairman Ryan noted that the Board has moved and seconded the funding increase but not the plan design changes for new members. Chairman Ryan then asked Mr. Senn how this would be handled.

Mr. Senn responded that if the budget office would not agree to accept the proposed changes that the Board would have to ask the legislature to amend the bill after it was introduced.

Chairman Ryan called for the vote. The motion passed 5 to 1.

Chairman Ryan called for any other public comments on legislative items.

Mr. Bilodeau, MEA-MFT, provided the Board with an update on the K-12 Statewide Health Insurance Program (SHIP). The SHIP has unanimous interim legislative committee support and will be carried as a committee bill by Representative Tom Facey. The Governor's renewal commission has also endorsed the bill, and SHIP is part of a four-point immediate finance reform package in response to the adequacy and quality educational lawsuit.

Mr. Bilodeau, commented that both the MEA-MFT and the School Administrators of Montana have indicated that they will support a Professional Retirement Option (PRO) during the 2005 Session to change the TRS benefit formula from 1.6667 to 2.00 percent of salary per year of service for members age 55 or older who retire with 30 or more years of creditable service.

Mr. Bob Vogel, Montana School Board Association noted that his organization does favor the PRO concept primarily for retention of administrators in Montana. Mr. Vogel had a question about the 2.87% increase required to actuarially fund the TRS, how it would be phased in and also when does the 5 highest consecutive year change become effective immediately or is it only for new members?

Mr. Senn replied that the current bill would increase the employer contribution rate in each of the next two biennia by adding 1.2% to the current 7.47% effective July 1, 2005 then another 1.2% added on top of that effective July 1, 2007. The rate would not be reduced until the system was actuarially funded and could maintain a 25 year amortization period without the additional funding.

Chairman Ryan asked if the phase out of the 2.87% contribution rate increase was required under the proposed legislation, or would it be a vehicle, if the performance was better than expected, to increase the GABA to 3.0 percent?

Mr. Senn responded that if the performance was better than expected, it would go to amortize UAAL, and once the system could maintain a 25-year amortization period without the supplemental contribution, then the supplemental rate increase would terminate. Until the system can support a 25-year amortization period without the additional 2.87% contribution rate increase, the Board would not be able to increase GABA.

Mr. Senn also responded to Mr. Vogel's question regarding new hires. The actuarial funding proposal as written would apply only to new members first hired into a position covered by the TRS after July 1, 2005.

TRS Housekeeping Proposal - Mr. Senn explained the housekeeping proposal included changes necessary to: clarify the provision for establishing a governmental excess benefit arrangement and eliminating the provision's contingent effective date; clarify provision on the redeposit of contributions for previous membership service by striking relevant language in current code sections and recodifying the language as a new section; clarifying the provision on employee's termination pay contributions; clarify the provision on retirees returning to employment by striking relevant language in current code sections and recodifying the language as a new section; revising and making retroactive the provisions governing the recalculation of benefits when a retired member returns to employment and retires a second time; and providing for the reduction of retirement benefits in lieu of canceling the benefits when a retiree earns

more than one-third of the average final compensation. The Board discussed the general housekeeping amendments as presented.

MOTION/VOTE: Mr. Dubbs moved the Board accept the housekeeping proposals. Second by Mr. Turcotte, the motion carried unanimously.

Other Legislative Proposals: Mr. Senn advised the Board that Mr. Gregory P. Paulauskis had voiced concerns that his election to participate in the University System's Optional Retirement Plan (ORP) had resulted in lesser benefits than he deems fair, and that even if he were to again find himself in the Montana TRS he would not be able to purchase his ORP service. However, TRS members who taught in an out-of-state university system would be eligible, once vested, to purchase up to 5 years of out-of-state teaching service.

Mr. Senn asked if the Board wanted to include an amendment in the housekeeping bill that would permit members to purchase Montana ORP service based on the actuarial cost? If so, should this purchase be limited to 5 years, as are private teaching and out-of-state teaching service, or limited to time covered under the Montana ORP?

Chairman Ryan responded that as long as the new members are purchasing the service at the actuarial cost, why would we want to limit their ability to purchase it?

Mr. Dubbs asked if other purchases for out-of-state teaching services were at actuarial costs?

Mr. Senn responded that they are at actuarial cost if you became a member of the System after July 1, 1989.

Mr. Turcotte asked if the proposal would cover only those people that had teacher's retirement service prior to going into the ORP?

Mr. Senn responded no, the proposed amendment would apply to all TRS members who had prior Montana ORP service.

Mr. Turcotte commented that as long as the member was charged the actuarial cost to purchase their ORP service and that the time purchased is limited to 5 years, he would support including the amendment in the TRS housekeeping bill. It was the consensus of the Board to include an amendment in the housekeeping bill to allow TRS vested members with service in the Montana University System's ORP to purchase up to 5 years of ORP service at the actuarial cost.

Professional Retirement Option (PRO) - This proposal is designed to retain experienced teachers and administrators in the public school system by offering enhanced retirement benefits to members of the TRS who postponed termination and retirement until they are at least age 55 and have 30 or more years of creditable service. Eligible members would receive benefits calculated using a 2.0% multiplier rather than the current 1⅓%. This proposal will require a 2.02% increase in the employer contribution rate, or approximately \$12 million per year.

It was the consensus of the Board to support the professional retirement option.

GABA Increases - The Montana Retired Educators Association presented two proposals. The first proposal would increase GABA from 1.5% to 1.67%, and the second proposal, supported by Great Falls retired teachers, would increase GABA to 3.0%. The employer contribution rate increases required to fund each of the proposed GABA increases are 0.70% and 6.08% respectfully.

Charlotte Thomas, Legislative Chair, Montana Retired Educators' Association (MREA) informed the Board that MREA had met last week and MREA agreed that the 3% GABA was not attainable. MREA voted to seek legislation to increase GABA from 1.5% to a 2%. Ms. Thomas explained that in 1999 the legislature approved the 1.5% GABA, and in 2001 the legislature authorized the TRS Board to increase GABA to 3%, as the required funding became available. Since the funding is not available right now, MREA is going to try to get to a 2% GABA. It was the consensus of the Board to support the 2% GABA.

Working After Retirement – The Board's current position is to oppose legislation that would allow retirees to return to full-time TRS positions and continue to draw full retirement benefits.

During the September TRS Board Meeting, Dr. Jerry Pauli suggested that members eligible for normal retirement should be allowed to draw retirement benefits as soon as they are eligible and continue to be employed, provided both the retired/rehired member and their employer continue to contribute to the TRS the normal contribution rates of 7.15% and 7.47% of their total salary; however, no additional TRS benefits would accrue to the retired/rehired member.

Mr. Olleman commented that the main reason this legislation is so expensive is because members are retiring at a younger than expected age. Where you see the majority of the cost is when members are able to retire after only 25 years and almost no one continues to participate as an active member in the TRS. Everyone begins to draw benefits after 25 years.

Minimum Benefit Adjustment for Disability Benefit Recipients - Mr. Senn reported that Representative Dee Brown has requested legislation to provide a minimum benefit adjustment for TRS retired members receiving disability retirement benefits. This would be a one-time adjustment, paid to all eligible recipients on July 1, 2005. The minimum monthly benefit would be equal to \$24.00 per year of service. For example: A disability benefit recipient with 20 years of service currently receiving \$400.00 per month would see their monthly benefit increased \$80.00. There are approximately 43 eligible recipients; their average years of service and benefit are 12.50 years, and \$392.00.

It was the consensus of the Board to support this proposal.

Public Comment On Proposed Legislation - Bob Vogel, Montana School Board Association commented that there is a concern among those who are involved in the educational field. We have administrators who have 25 years in Montana then we lose them to Washington, Oregon, Idaho and Wyoming. Mr. Vogel commented that Mr. Pauli's proposal may not be the solution to the problem but applaud Jerry for some of his ideas for trying to keep some seasoned administrators in Montana.

Kathy Bramer, Office of Public Instruction questioned the IRS issues involved with maintaining a qualified plan and work after retirement proposals.

Mr. Olleman explained that you would want to pursue with the systems attorney's to make sure it's viable with the IRS qualification rules. The key issues they look at are the normal retirement age and is there a separation from service.

PUBLIC COMMENT

Chairman Ryan called for public comment on Board related items. There being none, the Chairman adjourned the meeting for lunch.

The regular meeting of the Teachers' Retirement Board reconvened at 1:15.

EXECUTIVE DIRECTOR'S REPORT:

2005 GABA Adjustment - Following each Actuarial Valuation, pursuant to §19-20-719, MCA the Board must determine if sufficient funding is available to increase GABA from 1.5% to a maximum of 3.0%. Because the July 1, 2004, the valuation showed the amortization period was in excess of 30 years, staff recommended GABA not be increased above 1.5 percent.

MOTION/VOTE: Mrs. Barbara Foster moved to keep GABA at 1.5%. Seconded by Mrs. Peiffer. The motion carried unanimously.

EXECUTIVE SUMMARY

Mr. Senn reported that the Legislative Auditors Office was completing the financial and compliance audit of the TRS. Staff anticipates the final report will contain one recommendation that the Board seek legislation to maintain an actuarially sound system. There have also been discussions with the auditors about whether they would qualify their opinion because the system is not actuarially sound.

Mr. Senn reported that the current Goals and Objectives of the Board need to be updated for the current biennium and asked if the Board would like to appoint a committee to work with staff. Jim Turcotte and Scott Dubbs volunteered to be on the committee.

LEGAL COUNSEL REPORT:

Vivian Hammill reported on the following cases.

Merle Farrier case. The court reporter in Judge Sherlock's courtroom has filed a motion with the Supreme Court for an extension of time to file the transcript. This has delayed our appeal.

Ruey-Lin Lin case: Ms. Hammill reported that oral arguments for summary judgment on the Mr. Lin's case were presented on November 5, 2004. Ms. Hammill expected a decision sometime between 2004 and 2005.

Suspected embezzlement case: Ms. Hammill advised the Board that she has talked to the chief investigator in Colorado, Sandra Wells, who indicated the case has been given high priority.

OTHER BUSINESS:

2005 Meeting Dates - The Board discussed the following tentative meeting dates for 2005: February 18, May 13, September 9, and November 18.

MOTION/VOTE: Chairman Ryan called for a motion that the meeting dates for the 2005 Board meetings be adopted. Mr. Turcotte moved that the meeting dates be approved. Seconded by Mrs. Foster. The motion carried unanimously

Out of State Travel - Mr. Senn has for the past several years been asked to serve on the Legislative Committee of the National Council on Teachers' Retirement, which meets in Washington, DC, around the end of January or the first part of February. Mr. Senn requested that if asked to serve again this year on the NCTR Legislative Committee that the Board approve the out-of-state travel request.

MOTION/VOTE Mrs. Foster moved that Mr. Senn's out-of-state travel request to attend the NCTR Legislative Committee meeting in Washington D.C. be approved. Seconded by Mona Bilden, the motion carried unanimously.

NCTR Annual Conference Report - Mrs. Foster and Mr. Senn reported on the NCTR Annual Conference that they attended in Portland, OR. They both found it very beneficial and informative. Informative speakers included Steve Roberts, Harvey J. Goldschmidt, Tim Kelly from Social Security, Neil Howe and George Freedman.

Investment Report - Chairman Ryan gave an updated investment report. Chairman Ryan informed the Board of some new portfolio strategies that the BOI are looking at for the next six months; including small cap investments and also some European investments. At the last Board meeting the Board of Investments agreed to continue investing in Montana mortgages.

Financial Statements, Delinquent Agency, Travel, and Budget Reports - Mrs. Tammy Rau, Deputy Executive Director, introduced Dan Gaughan, Accounting/Fiscal Manager to answer questions about financial statements and current budget reports for the 2005 fiscal year. Mr. Gaughan reported that the contract with Milliman was originally projected not to exceed \$64,500.00; however, currently we are already at \$55,000.00 with anticipated total costs of \$68,000.00 to \$69,000.00 by fiscal year end. The higher than anticipated charges are due to the cost of letters regarding new legislation. We have been billed for about thirteen letters so far this year. Also, a remodel of the air conditioning system has exceeded the \$6,000.00 estimate we received by about \$8,000.00. Lastly, the update for the Employer Web Reporting System has come in under budget. The software we originally estimated to be about \$40,000.00 has been reduced to an annual maintenance agreement of \$8,000.00, resulting in a savings of about \$32,000.00. Mr. Gaughan anticipated that a budget amendment for FY 2005 would be necessary.

Mr. Gaughan gave an update on delinquent agency reports. He reported that the Swan Lake Salmon Elementary report has been received and it is up to date. Lodge Grass has submitted their report but we have not seen their deposit.

Annual Per Diem Election - Mr. Senn explained that a public employee who is also a member of the TRS Board is not eligible to receive per diem as a board member for the same time they receive compensation as a public employee. If they are compensated for the same time twice, they would need to file a report with the Commissioner Of Political Practices. However, if a board member is on annual leave or some other kind of paid leave, they would not be in violation of this standard. Mr. Senn stated that staff was not aware of any Board member who would have to file with the Commissioner of Political Practices.

Disability Applications

Executive Session to Discuss Disability Applications & Annual Reviews:

The Chair directed the meeting closed at 2:15 p.m. to review disability applications since the individual's right to privacy of information pertaining to disability benefits clearly exceeds the merits of public disclosure.

Disability Retirement Applications – The meeting was reopened to the public at 2:35 p.m.

MOTION/VOTE: Mr. Turcotte moved that the disability application of Ms. Joanne H. Wright be approved. Seconded by Mrs. Foster, the motion carried unanimously.

Ms. Mona Bilden moved that the disability application of Mr. Anthony J. Kilyanek be approved. Seconded by Mrs. Foster, the motion carried unanimously.

Mr. Turcotte moved that the disability application of Mrs. Karen E. Everett be approved. Seconded by Mrs. Kari Peiffer, the motion carried unanimously.

ADJOURNMENT:

Mrs. Foster moved that the November 2004 meeting be adjourned; Ms. Bilden seconded. The meeting adjourned at 3:15 pm.

Chairperson_____

Executive Director_____